14: 5 Money Mistakes I Made in My Business

Full Episode Transcript

Scale Your Joy with Kaneisha Grayson

You are listening to scale your joy with Kaneisha Grayson, Episode 14!

Welcome, money and joy seeking honeys! Today I am celebrating that after a few grueling months of emailing back and forth, being rejected near and far, I have finally closed on a line of credit for my business.

Think of a line of credit like a credit card, but the spending limit is higher and the interest rate is much, much lower. I sought out a line of credit to act as a backup source for my business's cash needs during lower income months. And while a line of credit hardly seems exciting, finally getting this line of credit established does have me thinking about money, my business, what I've done right, and what I've done wrong.

Today, I'm going to talk to you about five money mistakes I've made in my business: what I did, what I should have done, and what I recommend so you don't repeat my mistakes.

As a reminder, I have a business called The Art of Applying. The umbrella company that encompasses all of my entrepreneurial endeavors, including Scale Your Joy, is actually called KDG Ventures, LLC. Those are my initials. But my main business and what I'm known for is The Art of Applying.

I started The Art of Applying in 2010, during my last year of graduate school at Harvard Business School and Harvard Kennedy School. Back then it was just me and a laptop, and now we're a 30+ member team, and the largest black owned graduate admissions consulting firm in the world!

We were actually just featured in Fortune, which is a huge deal to me, I'm so excited about that. And we'll share a link to the article in the show notes at scaleyourjoy.com/14.

The Art of Applying, what we do is we help people from all over the world get into the world's most competitive grad schools and get scholarship money to pay for it. I've run The Art of Applying full time for 11 years, and it's been a lot of ups and downs. And at first we'll talk about the ups, and then we'll talk about the downs.

So in 2017, I had earned enough money to where I finished paying off $150,000 in student loans. And most of that, I paid off in like two-three years. So about 2015, 2016, 2017 is when I paid most of it off as my business ramped up.

Then in 2018, my business hit a million dollars in annual revenue - which was a huge accomplishment that my team and I worked really hard to achieve. However, I also felt super burned out. I lost my mom, I got divorced, I moved to New York City and back from New York City all in the same year.

And after that heartbreaking whirlwind of 2018 and 2019, I decided to scale back on my business, to focus on my health, grieve the loss of my mother and my marriage, and find a better balance between scaling my business and having a calm, centered life full of joy, connection, and adventure.

So I'm now on the journey back to a million dollar plus business, but with a commitment to run my business in a calm, highly profitable way rather than make a million dollars at all costs, which is the mindset that I had before.

And before I go into the five money mistakes I made, I want to do a quick vocabulary lesson on the terms revenue, expenses, and profit. Now if you already know this, you can just kind of tune out. Or you can fast forward through this part. But I want to just make sure that everybody knows the difference between revenue, expenses and profit.

So revenue is the money your business brings in from selling products and or services. So it's the, on an income statement it's the number at the very top of the income statement. It's all the money that your business has brought in from selling things.

Expenses are all the costs associated with running your business - that might be internet, office space, computer advertising costs, paying people who work for you. Those are all your expenses.

And then profit is the money that is left over after you subtract your expenses from your revenue. So revenue minus expenses equals profit. And so what you pay income taxes on is your profit, not your revenue.

All right, so now that we have those terms nice and clear, it is time to discuss the five money mistakes I made in my business.

Number one, I did not closely track where clients were finding me. You want to know how every single client you work with found you so that you know which sources are the best places for you to find clients. You may think that your clients are finding you from your

Instagram account, when it turns out that they're finding your YouTube videos and then reaching out.

You should ask every single client, both in an intake form and on a phone call if you have a call with them, how they found you. And you should keep track of not just how many clients come from each source, but how much money those clients represent.

So even though I started my business way back in 2010, I didn't really start keeping track of where clients were finding me, and how much they were spending based on how they found me, until 2017 when I started running Facebook ads and wanted to know how many clients were coming from Facebook ads versus from my website.

So let me show you the power of tracking where your clients come from. At The Art of Applying our top sources for paying clients are the blog posts on our website. So people Google things, then they land on our website.

Then another one is referrals from past clients. So clients work with us, get great results, feel really excited, and then they tell their colleagues, classmates and friends that they worked with The Art of Applying. And then those people reach out to us and some of them eventually become clients.

Another great source is our YouTube channel. I did used to spend as much as $1,000 per day on Facebook ads. But, I've since moved in a different direction. It's totally possible that we'll one day return to using Facebook ads, but right now I'm much more interested in YouTube these days.

So anyway, the point is, there are a lot of different ways people could have found their way to The Art of Applying. And if I don't track where our paying clients are finding us, and if I don't track how much those people are paying according to how they found us, I won't know where I should be putting more of me and my team's efforts - where we should be putting our time, our money, and our attention.

Alright, so for example, year to date at The Art of Applying - so that's from January 1, 2021 through July 5, 2021, so that's the first half of the year - both our website and client referrals, they have brought us the same number of clients.

However, our website has brought in more money as a whole than client referrals have. And even more interestingly, the clients that come to us from each source spend drastically different amounts of money.

Alright, I'm actually going to share some real numbers with y'all. When a client comes to The Art of Applying from googling things and then landing on our website, they spend on average $10,000 with us. That's a lot of money. So I'm very happy.

That does not mean every person who Googles and lands on the website spends $10,000. If they did I would be fabulously wealthy, we have about 8-10,000 people who visit the website every month.

So no, I'm not saying everyone who visits the website comes and spends $10,000. I'm saying people who eventually buy something, and the way they originally found us was from googling and landing on the website, those people spend on average $10,000.

When a client comes as a referral from another client, from a past client or current client, they spend on average about $12,000. So they spend $2,000 more when they come as a referral from a past or current client.

But then we have the next level - when a client comes to us. When, after originally finding us on YouTube, they spend on average, a whopping $17,400. Whoa.

So even though our website brings us the most clients, or rather, the website and client referrals bring us equally the most clients, our YouTube channel brings in the most money. My team and I would never know that if we didn't ask every single paying client how they found us.

There is fancy software that can help you track where clients come from, but in the early days of your business, it's really just best to keep it simple and just ask people when they first reached out to you how they found you.

It's as easy as putting it on the contact form on your website or making it the first question you ask them on a consultation call. So that was the first mistake that I made for years in my business, I didn't closely track where clients were finding me.

Number two, I didn't use credit enough. Earlier in the episode, I mentioned that I was rejected for a business line of credit multiple times.

After carrying and then paying off $150k in student loans, I actually have a stellar personal credit score. But I rarely use credit cards in my personal life and this has made me somewhat of a credit ghost when it came time to apply for business credit.

So for my business, I do have an American Express Platinum card. But since it's a charge card rather than a credit card, it doesn't actually quite show up the same way on my credit report as a traditional credit card would.

So if I could do it again, I would be less afraid of the dangers of credit cards. And there are dangers of credit cards, especially for those of us who love to spend money. I would be less afraid, more trusting of myself. And I would use credit cards more consistently in my personal life and my business life to establish a stronger credit history from business lending purposes.

When I started getting rejected for this business line of credit, one of the things I thought was, Oh my goodness, I am so glad my low usage and rare usage of credit cards didn't negatively affect my ability to get a great rate on a mortgage.

You know, I will really say y'all, for real, it was easier and faster for me to get pre-approved for a million dollar mortgage than it was for me to get pre-approved for a $100,000 business line of credit.

It's crazy out here, y'all. You really want to make sure that you are paying attention to your personal credit score and building up credit as a business. And to be clear, my mortgage is not a million dollars or anywhere close to that!

Okay, so the lesson here is to use credit cards responsibly, but do not be afraid of using them to the point where you don't have a strong personal and business credit history.

All right, money mistake number three, I did not have strong business banking relationships. I figured a bank is just the place where I keep my money, and anyone working at the bank can and should help me, right? Wrong. Banking is very relationship oriented. Even if you bank at a huge bank versus, let's say, a credit union where it's more obvious that it's relationship based.

So even though I kept tens of thousands, and sometimes over $100,000, in my business bank account, I did not have any one person at the bank, who was my personal business banker, who I could turn to for help for questions and for advice.

And so when it came time to apply for a line of credit for my business, it made it really difficult because there was no one point person who was really invested in seeing my process through.

Now the bank did assign someone to me, but we didn't really know each other, we didn't have that relationship. So I - first, what I did is I reached out to my good friend Amber, who works for a major bank, and we applied for a line of credit through her bank.

But I didn't bank with that bank, they were like, Who is this person? Why doesn't she use credit, what's happening? and they rejected me for the line of credit. So then she very kindly referred me to a banker where I actually bank, after her bank rejected my line of credit application.

And so that so then I was actually just right on back at my own bank, but connected with someone who was known to be excellent. And she helped me get that line of credit established.

And so the action to take here would be to make sure that not only do you know your personal credit score, but if you have a business to establish a relationship with a specific individual business banker where you bank.

The fourth mistake I made was I didn't invest in coaching early and often enough. I figured, Hey, I went to Harvard Business School. I graduated with Second Year Honors, which means I was the top 20% of graduating students.

I even took Marie Forleo's B-School the first year it was ever offered. I should know how to run an online business by now. But the truth is, you don't really learn the nitty gritty of running a small business nor an online business when you go to a top business school and get your MBA.

It's really a whole different beast running, managing, and growing an online business, a lifestyle business, than it is to manage and lead a multi-million or -billion dollar international enterprise that is extremely resourced, with a lot of structures and processes and policies in place.

And so I really should have reached out for business coaching earlier than I did when I found out I was getting stuck or feeling isolated, confused, and alone.

I was seven years into running my business before I seriously invested in business coaching. And with that coaching, that is where I learned how to effectively sell via consultation calls, how to use webinars and ads to teach people about what me and my business do. And those ads helped me find lots of people to speak to on those consultation calls, so that I could convert some of those people into paying clients.

Now what I want to give you a little heads up on is that before you sign up for any kind of business coaching, let's say anything $1,000 or more, it's important that you try and speak directly to at least three people who have invested similarly - in a similar program or the exact same program. So you can learn the pros and cons of their experience, and gain any advice they have for you about how to make the most of that coaching.

It's not always possible to speak to past clients, but the best business coaches, they're going to have video testimonials of real people. Real people who are using their real name and the real name of their business. And those people should be sharing about specific ways that the coaching worked for them and their business.

I would love for you to try and talk to people for whom the coaching worked well, and to people who weren't successful in achieving their goals even after investing in that coaching.

Clearly, it's going to be easier to find the people who are successful and that are featured in the testimonials. But places like Reddit and Quora can serve as a good place for you to post and ask, Hey, has anyone ever bought this course from this company? Those kinds of questions, believe me, the disgruntled people will be more than happy to regale you with tales of woe and warning. So they'll give you the other side of investing in that program or with that coach.

And so I have a business coach right now, with whom I work one on one. And for the current business coaching that I pay for, that coach, she was featured on several podcast episodes, alongside her clients who spoke in clear, specific and glowing terms about how their work together helped their businesses grow and become more streamlined.

So it gave me a lot more confidence in saying, Yes, I'm going to take the leap, I'm going to invest in work with her on my business.

The fifth money mistake I made in my business is I didn't focus on profitability enough. As my business grew, I began to focus more on my business's income, rather than my business's impact on my life. In other words, I was more focused on revenue and the size of my business than I was on profits and how much money I was actually making.

In 2018, the year that my business brought in a million dollars in revenue. My adjusted gross income was about $233,000 - not bad! However, I worked all the time. And I felt constantly under the gun to bring in more and more money to pay for all the expenses I had accumulated in the form of full time team members, Facebook ads, and paying for high dollar business coaching.

Okay, so let's do some math. $233,000 out of $1 million of revenue means that for every $1 that came into the business, 23 cents of it went to me. That's pretty good.

However, in 2020, my business brought in just $581,000 in revenue, but $245,000 of that flowed to me. So that means for every $1 that came into the business in 2020, 42 cents of it went to me.

Now in reality, I didn't really get to keep all $245,000 of that, because I keep a lot of money in the business bank account so we have money to run the business. And of course, I have to pay federal income taxes on that as well.

But the point is, is a much higher proportion of the revenue went to me in 2020 than it did during my million dollar year. And I worked way less than 2020, much better hours, much more balanced work life than I had in 2018. So what were the things that had me overspending and eroding my profits during my million dollar year, the number one thing was over-hiring.

At one point, I had eight full time employees spread across the US and Canada, eight is way too many full time people for a million dollar business. I think I hired so many people because I was relying on people power, rather than the power of systems and streamlined operations to move things along in my business.

So if we ran into a problem, I just threw money at it in the form of hiring another person rather than stopping to figure out what system the business needed to be put in place to either make the process work more smoothly and consistently, and/or solve that problem for good.

So eight was way too many employees for a million dollar business. In fact, I'd say that you want just one full time person being paid US-level wages for every $200,000 in revenue. The reason I say US-level wages is that as you may remember, I do have team members in the Philippines. They are paid very well for the Philippines, but it's a lower wage than you'd pay for, let's say, a full time professional in the US or Canada.

So if we're talking about hiring in a place like the Philippines, I'd recommend you hire a part-time virtual assistant for around $500 per month, as soon as you're making at least $2,000 per month in profit in your business. Profit, not revenue. So revenue minus expenses is profit.

So once you're making at least $2,000 per month in profit, it's time to go ahead and bring on a part time virtual assistant. And then you can hire a full time virtual assistant, let's say you pay them $1000 to $1500 per month, once you're making at least $4,000 per month profit in your business.

And you can listen to Scale Your Joy episode six for tips for hiring an extraordinary executive assistant.

So in my million dollar year, I had eight full-time US employees. On the other hand, in my much more profitable 2020, I had just one full time US employee - me - and three full-time team members in the Philippines.

Now I have a large team of people who are based in the US but they work on a per-project basis. And I don't have any other full-time people in the US being paid six figure salaries.

I believe in paying people well. I like to be paid well. But pay rates need to be sustainable for your business so that you don't starve the business of cash.

It's really hard on a small online lifestyle business that is less than a million dollars in revenue to pay multiple people six figure salaries. You want to make sure that you are earning well before you start bringing on people to your team at $40 and more per hour full-time.

So when you overhire like I did, you wind up working, working, working to make enough money to pay your team, rather than figuring out what team structure and what the right size team is for the amount of revenue you have.

And if you want to read more about this, I really recommend the book *A Company of One* by Paul Jarvis. It's a really easy to read, engaging book about the power of small companies that are highly profitable.

So those are the five money mistakes I made in my business. I'm sure I've made a lot more than those, but those are the five that I wanted to share with you today.

Number one, I didn't closely track where my clients were finding me. Number two, I didn't use credit enough. Number three, I didn't establish strong business banking relationships. Number four, I didn't invest in business coaching early enough or often enough. And number five, I didn't focus on profitability enough.

Now if there's enough interest in a future episode, I am happy to talk about the million dollar money decisions I have made - what I've done right when it comes to money, what I've learned from my money wins, and how I've been a constantly learning Money Making Machine for the last four years.

As you grow in your career, and or grow your business, I don't want you to be afraid of making money mistakes. If you're making money, money mistakes will happen. The important thing is that you learn from those mistakes.

Keep moving forward, and use your mistakes to propel you forward rather than make you hide in shame, fear, and doubt. Now go make that cash, and perhaps even a few cash mishaps, my awesome money honey!